COMBINED ENGINEERED PRODUCTS LIMITED

TWENTY-FOURTH ANNUAL REPORT 1968

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COMBINED ENGINEERED PRODUCTS LIMITED

48 St. Clair Avenue West, Toronto 7, Canada

HONORARY DIRECTOR

C. S. BAND	*Toronto*

BOARD OF DIRECTORS

*M. O. SIMPSON, JR.	*Toronto, Chairman and Chairman, Executive Committee*
D. S. BEATTY	*Toronto*
J. P. CARRIÈRE	*Montreal*
*P. S. NEWELL	*Toronto*
M. O. SIMPSON	*Tucson, Arizona*
D. L. TORREY	*Montreal*
*H. M. TURNER	*Toronto*

**Members of Executive Committee*

OFFICERS

M. O. SIMPSON, JR.	*President*
B. T. H. KNILL	*Secretary-Treasurer*

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY
Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY
15 Exchange Place, Jersey City 2, N.J.

AUDITORS

PARENT COMPANY AND THE CANADIAN SUBSIDIARY COMPANIES
McDonald, Currie & Co.

SOUTHEASTERN ELEVATOR CO. INC.
Lybrand, Ross Bros. & Montgomery
(*associated firm of McDonald, Currie & Co.*)

FRINK SNO-PLOWS INC.
Leon W. Robb

THE DIRECTORS' REPORT

To the Shareholders of

COMBINED ENGINEERED PRODUCTS LIMITED

17,483,474

On consolidated sales of $16,779,378 the company earned a profit of $386,973 after providing $376,000 for income taxes. This profit, after the payment of $110,000 dividends on the Preferred shares, Series A is equal to 45¢ per Common share, compared with 50¢ per share last year.

419,314

Capital expenditure on plant and equipment was $490,677, and on land it was $33,916, for a total of $524,593. Additional land adjacent to Frink Sno-Plows' property in Clayton, New York, was acquired for the purpose of adding to this company's production facilities. Also, in Toronto an agreement to purchase land was entered into for the possible future expansion of Hamilton Gear and Machine Co. It is planned to spend approximately $415,000 in the current fiscal year on additions to production machinery, and an additional $125,250 will be spent to complete the purchase of the Hamilton Gear land.

Working capital at August 31, 1968 is $2,861,961 which, compared with

that of a year earlier, represents a decrease of $143,968, the details of which are explained in the statement of source and use of funds.

At August 31, 1968, Common shareholders' equity is $1,786,761, equal to $2.92 per share.

Consolidated sales decreased by 2.9% compared to the previous year, however this represents an increase of 10.4% in the sales of the U.S. subsidiaries, and a decrease of 9.4% in the sales of the Canadian companies. While the profits of the U.S. companies were up, this increase was insufficient to compensate for the drop in earnings of the Canadian companies.

The sectors of the economy upon which the Canadian operations are most dependent, namely construction and capital expansion of heavy industry, were less active during the past year and tended to accentuate the ever present cost-price squeeze. The forecasts for the forthcoming year indicate that this situation may improve, and therefore a slight increase in the earnings of the Canadian companies is anticipated.

Both the U.S. companies showed an improvement in 1968 and it is expected that this trend will continue.

In the coming months each of the major manufacturing companies will

be negotiating new contracts with their respective bargaining units. Shareholders should be aware that, despite the Company's efforts to achieve reasonable and fair settlements, work stoppages can occur. At the time of writing a strike of the hourly rated employees of the Hamilton Gear Division is entering its sixth week. It should be emphasized that such work stoppages will make it difficult for the Company to meet its present forecasts.

PERSONNEL

During the year Mr. S. P. Lockhart was appointed President of Frink Sno-Plows, Inc., enabling Mr. J. R. Irwin to devote his full-time attention to the affairs of Eastern Steel Products Ltd.

Mr. R. A. Davis was appointed President of Southeastern Elevator Co., Inc.

The shareholders will note that Mr. C. S. Band, after seventeen years of service, retired as a full-time director, and subsequent to last year's Annual Meeting he was appointed an Honorary Director. For his past contribution and his continuing interest we are most grateful.

On behalf of the Board of Directors,

Toronto

October 29, 1968

Chairman

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1968

			1968	1967
			$	$
ASSETS				
CURRENT ASSETS				
Cash			**633,475**	199,461
Accounts receivable—trade			**2,539,573**	2,454,603
Accounts receivable—other (Note 2)			**91,237**	190,620
Special refundable income tax			**2,882**	—
Inventories—at the lower of cost or net realizable value (Note 3)			**4,163,332**	3,774,511
Prepaid expenses			**97,147**	89,301
Mortgages receivable due within one year			**5,750**	—
			7,533,396	6,708,496
	Cost	Accumulated Depreciation		
FIXED ASSETS	$	$		
Land	179,228	—	**179,228**	155,312
Buildings	1,548,429	664,849	**883,580**	954,837
Machinery and Equipment	4,718,232	3,296,805	**1,421,427**	1,313,114
	6,445,889	3,961,654	**2,484,235**	2,423,263
OTHER ASSETS				
Excess cost of investment in businesses acquired over book value of net assets at dates of acquisition			**137,217**	137,217
Patents—at cost, less amounts written off			**8,639**	9,710
Mortgages receivable			**35,000**	11,000
Special refundable income tax			**4,709**	10,099
			185,565	168,026
			10,203,196	9,299,785

	1968	1967
	$	$
LIABILITIES		
CURRENT LIABILITIES		
Bank loans (Note 4)	**2,122,000**	1,621,360
Accounts payable and accrued liabilities	**1,872,098**	1,326,651
Income and other taxes payable	**250,857**	422,156
Portion of long term liabilities due within one year (Note 5)	**426,480**	332,400
	4,671,435	3,702,567
LONG TERM LIABILITIES (Note 5)	**1,581,000**	1,988,000
DEFERRED INCOME TAXES	**164,000**	100,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—		
200,000 Preferred Shares of the par value of $20 each, issuable in series		
1,200,000 Common Shares without nominal or par value (Note 6)		
Issued and fully paid—		
100,000 $1.10 Cumulative, Convertible Preferred Shares, Series A, redeemable at $21.50	**2,000,000**	2,000,000
612,300 Common Shares (Note 7)	**157,250**	157,250
RETAINED EARNINGS	**1,617,009**	1,340,036
EXCHANGE EQUALIZATION RESERVE	**12,502**	11,932
	3,786,761	3,509,218
	10,203,196	9,299,785

Signed on behalf of the Board:

M. O. SIMPSON, JR., *Director*

H. M. TURNER, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	$	$
SALES	**16,779,378**	17,283,474
COSTS		
Cost of products sold	**12,843,842**	13,382,189
Advertising	**163,605**	180,102
Selling expenses	**875,541**	801,624
Research and product development	**62,687**	43,129
Administrative and general expenses	**1,328,668**	1,270,265
Depreciation and amortization	**428,786**	436,023
Interest on bank loans	**124,960**	211,355
Interest on long term liabilities	**112,066**	62,434
Directors' remuneration	**76,250**	69,039
	16,016,405	16,456,160
PROFIT BEFORE INCOME TAXES	**762,973**	827,314
INCOME TAXES		
Current	**312,000**	378,000
Deferred	**64,000**	30,000
	376,000	408,000
NET PROFIT FOR THE YEAR	**386,973**	419,314

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	$	$
BALANCE—beginning of year	**1,340,036**	1,100,922
NET PROFIT for the year	**386,973**	419,314
	1,727,009	1,520,236
DIVIDENDS—Preferred Shares	**110,000**	110,000
	1,617,009	1,410,236
PRIOR YEARS' INCOME TAXES OF A U.S. SUBSIDIARY	—	70,200
BALANCE—end of year	**1,617,009**	1,340,036

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Combined Engineered Products Limited and wholly owned subsidiary companies as at August 31, 1968 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of the parent company and those of its subsidiary companies of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary company.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

Toronto, October 29, 1968

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1968

	1968	1967
	$	$
SOURCE		
Operations—		
Profit for the year	386,973	419,314
Add: Depreciation provided	428,786	436,023
Deferred income taxes	64,000	30,000
Exchange adjustment	570	—
Write-off of long term receivable	—	46,991
	880,329	932,328
Disposals of fixed assets	35,906	2,639
Reduction (increase) in special refundable income tax	5,390	(6,499)
Proceeds from sale of investment and repayment of advances	—	39,650
	921,625	968,118
Reclassification of bank loan	—	1,000,000
Less: Current portion	—	100,000
		900,000
	921,625	1,868,118
USE		
Reduction in long term liabilities	407,000	158,600
Dividends paid to preferred shareholders	110,000	110,000
Additions to fixed assets	524,593	308,601
Increase (reduction) in mortgages receivable	24,000	(2,793)
Prior year's income tax	—	70,200
	1,065,593	644,608
INCREASE (DECREASE) in working capital	(143,968)	1,223,510

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 1968

1. Basis of Consolidation

The accounts of wholly owned subsidiary companies have been consolidated. Assets, liabilities and earnings of the United States subsidiary companies have been converted to Canadian funds at $1. U.S. = $1.08 Canadian.

The 1967 figures on the consolidated statement of earnings reflect operations for only one month and three months respectively of Brake Drum & Shoe Service 1967 Ltd. and Bush Roller Company Limited. The 1968 figures reflect the complete year's operations.

2. Accounts Receivable—Other

This amount represents the net accounts receivable repurchased (less a provision for doubtful accounts of $19,731) under an agreement dated February 24, 1966 with Dover Corporation relating to the sale of the elevator companies.

It is expected that the final adjustment, if any, relating to these receivables will be made by August 31, 1970.

3. Inventories

	1968	1967
These comprise:	$	$
Raw Materials	1,373,503	1,166,113
Work in Process	829,862	744,023
Finished Goods	1,959,967	1,864,375
	4,163,332	3,774,511

4. Bank Loans

Bank loans in the amount of $2,490,000 at August 31, 1968 have been secured by pledging the inventories and trade accounts receivable of the divisions of the parent company and one Canadian subsidiary.

5. Long Term Liabilities

	Long Term	Portion due within One Year
	$	$
4½% Sinking fund debentures, Series A maturing April 15, 1970 (Sinking fund payment sufficient to redeem $200,000 principal amount due on April 15, 1969; less purchased for redemption $500)	825,000	199,500
Demand bank loan—scheduled for repayment by December 31, 1972 (Note 4)	700,000	200,000
Sundry notes and mortgages	56,000	26,980
	1,581,000	426,480

6. Common Shares

150,000 Common Shares are reserved for the conversion of the $1.10 Cumulative, Convertible Preferred Shares, Series A. Each such Preferred Share may be converted to 1¼ Common Shares to December 1, 1970, and to 1 Common Share thereafter to December 1, 1972.

7. Dividend Restriction

The provisions of the $1.10 Cumulative, Convertible Preferred Shares, Series A prevent the payment of dividends on the Common Shares unless, immediately after giving effect to such action, the aggregate amount of dividends paid subsequent to August 31, 1962 on all shares of the company, will not be more than the consolidated net earnings since that date. Before dividends on the Common Shares can be paid, therefore, additional consolidated net earnings (after payment of the cumulative dividends on the Preferred Shares) of $1,975,000 must be made.

8. Unfunded Pension

Employees' pension plans have an unfunded liability at August 31, 1968 of approximately $375,000. The company intends to fund this amount over 22 years.

9. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid or payable by the company and its subsidiaries to the directors and senior officers of the company amounts to $172,765, which includes the amounts of $66,000 for remuneration and $10,250 for fees, the total of which is shown as directors' remuneration in the consolidated statement of earnings.

10. Commitments

(a) leases

Annual rentals on real property leases of more than three years' duration approximate $135,000. Such leases expire at varying dates before 1993.

(b) capital expenditures

Under an Agreement of Purchase and Sale dated July 5, 1968 the company has agreed to purchase approximately 16.5 acres of land at $8,500 per acre for a total amount of $140,250. The purchase price is to be settled by $70,125 in cash, $15,000 of which has been paid and included in the August 31, 1968 financial statements, and by the vendor granting a $70,125 five year mortgage at 8½%.

11. Contingent Liabilities

Under the terms of an Agreement dated February 24, 1966 with Dover Corporation for the sale of the elevator companies, the company may be called upon to reimburse Dover for liabilities arising prior to February 28, 1966 which were not recorded as at that date. If these liabilities are deductible for income tax purposes by the elevator companies, then the reimbursement which the company may be called upon to make is reduced by 50%. Under the terms of this indemnity, which expires on December 31, 1973, the company is aware of litigation in the United States for amounts totalling $800,000. These actions have arisen between the date of sale and the present time. In the opinion of management the above actions will be settled for materially less than $800,000, and furthermore would be deductible for income tax purposes. It is impossible at this time to ascertain what, if any, payment will have to be made in respect to these actions.

COMBINED ENGINEERED PRODUCTS LIMITED
48 St. Clair Avenue West,
Toronto 7, Ontario

DIVISIONS

AMERICAN WRINGER COMPANY **ST. LAWRENCE RUBBER COMPANY** *Farnham, Quebec*	*G. E. Plant,* *President*
BRAKES AND WHEELS *Regina and Saskatoon, Saskatchewan*	*M. A. Chase,* *President*
FORT GARRY AUTOMOTIVE INDUSTRIES *Winnipeg, Manitoba and Port Arthur, Ontario*	*D. L. Suché,* *President*
HAMILTON GEAR AND MACHINE COMPANY *Toronto, Ontario*	*P. H. Slaughter,* *President*

SUBSIDIARIES

BRAKE DRUM AND SHOE SERVICE 1967 LTD. *Winnipeg, Manitoba*	*D. L. Suché,* *President*
BUSH ROLLER COMPANY LIMITED *Toronto, Ontario*	*G. E. Plant,* *President*
EASTERN STEEL PRODUCTS LTD. *Preston, Ontario and Montreal, Quebec*	*J. R. Irwin,* *President*
FRINK SNO-PLOWS INC. *Clayton, New York*	*S. P. Lockhart,* *President*
SOUTHEASTERN ELEVATOR CO. INC. *Atlanta, Georgia*	*R. A. Davis,* *President*

COMBINED ENGINEERED PRODUCTS LIMITED

DIVISIONS

BRAKES AND WHEELS
Regina and Saskatoon, Saskatchewan

BRAKE DRUM AND SHOE SERVICE
Winnipeg, Manitoba

FORT GARRY AUTOMOTIVE INDUSTRIES
Winnipeg, Manitoba and Port Arthur, Ontario

HAMILTON GEAR AND MACHINE COMPANY
Toronto, Ontario

SUBSIDIARIES

EASTERN STEEL PRODUCTS LIMITED
Preston, Ontario and Montreal, Quebec

FRINK SNO-PLOWS INC.
Clayton, New York

LAWRON INDUSTRIES LIMITED

- **AMERICAN WRINGER COMPANY**
- **ST. LAWRENCE RUBBER COMPANY**
  Farnham, Quebec
- **BUSH ROLLER COMPANY**
  Toronto, Ontario

SOUTHEASTERN ELEVATOR CO. INC.
Atlanta, Georgia

COMBINED ENGINEERED PRODUCTS LIMITED

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INTERIM REPORT

TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 28, 1969

COMBINED ENGINEERED PRODUCTS LIMITED

To the Shareholders

Profits for the first six months of the current fiscal year declined 26% to $151,833.

The lower profits experienced so far this year reflect the continuing rise in the costs of material, wages, salaries, money and taxes, most of which we are unable to pass on by way of price increases in the products we sell.

This emphasizes the concern which we have expressed in previous reports about the effects of inflation on our operations.

Profitability for this period was further aggravated by a seven-week strike at the plant of Hamilton Gear.

The sales volume of Hamilton Gear, American Wringer and Eastern Steel's Industrial Division are at their lowest level for the past three years. In March, orders received in all these divisions showed a substantial increase. If this proves to be a continuing trend, then there is reason to expect that the sales and profits for the balance of this fiscal year will be somewhat better. We shall be able to report to you more definitely on this in the next interim report three months from now.

M. O. SIMPSON, JR.
Chairman and President

COMBINED ENGINEERED PRODUCTS LIMITED

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Year End Adjustments and Audit)
FOR THE SIX MONTHS ENDED FEBRUARY 28, 1969

	February 28 1969	February 29 1968
	$	$
SALES	**9,190,420**	9,127,414
PROFIT BEFORE INCOME TAXES	**321,933**	382,780
ESTIMATED INCOME TAXES	**170,100**	191,390
NET PROFIT FOR THE PERIOD	**151,833**	191,390

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Subject to Year End Adjustments and Audit)
FOR THE SIX MONTHS ENDED FEBRUARY 28, 1969

	February 28 1969	February 29 1968
SOURCE	$	$
Operations		
Profit for the period	**151,833**	191,390
Depreciation provided	**232,741**	222,540
	384,574	413,930
Increase in non current bank loans	**185,000**	—
Increase in mortgage payable re fixed assets	**74,954**	—
	644,528	413,930
USE		
Dividends paid to preferred shareholders	**55,000**	55,000
Additions to fixed assets	**402,327**	332,266
Reduction in long term liabilities	—	100,000
Increase in special refundable income tax	—	3,164
	457,327	490,430
INCREASE (DECREASE) in working capital	**187,201**	(76,500)
WORKING CAPITAL at beginning of year	**2,861,961**	3,005,929
WORKING CAPITAL at end of period	**3,049,162**	2,929,429
CURRENT ASSETS	**7,251,262**	6,340,429
CURRENT LIABILITIES	**4,202,100**	3,411,000
	3,049,162	2,929,429

COMBINED ENGINEERED PRODUCTS LIMITED

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DIVISIONS

AMERICAN WRINGER COMPANY
ST. LAWRENCE RUBBER COMPANY
Farnham, Quebec

BRAKES AND WHEELS
Regina and Saskatoon, Saskatchewan

FORT GARRY AUTOMOTIVE INDUSTRIES
Winnipeg, Manitoba and Port Arthur, Ontario

HAMILTON GEAR AND MACHINE COMPANY
Toronto, Ontario

SUBSIDIARIES

BRAKE DRUM AND SHOE SERVICE (1967) LIMITED
Winnipeg, Manitoba

BUSH ROLLER COMPANY LIMITED
Toronto, Ontario

EASTERN STEEL PRODUCTS LIMITED
Preston, Ontario and Montreal, Quebec

FRINK SNO-PLOWS INC.
Clayton, New York

SOUTHEASTERN ELEVATOR CO. INC.
Atlanta, Georgia

COMBINED ENGINEERED PRODUCTS LIMITED

COMPRO

INTERIM REPORT

TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 29, 1968

formerly
(Turnbull)

COMBINED ENGINEERED PRODUCTS LIMITED

To the Shareholders:

Profits for the six months of the current fiscal year declined 11% to $191,390.

Improved sales and profits of the company's American operations were offset by reduced sales and profits of the Canadian operations. As reported to you in the last Annual Report, there has been a slow-down in the rate of incoming orders at Eastern Steel Products Limited and Hamilton Gear & Machine Co. It now appears that there will not be an appreciable improvement in this situation in time to affect this year's results.

Compounding the problems facing the company's Canadian operations, during the course of the next few months negotiations with several bargaining units will be conducted. In this regard, it is the company's aim to hold wage and salary increases in line with productivity improvements so as not to further jeopardize our ability to compete profitably in the domestic and export markets.

It is expected that the present trend of reduced earnings will continue for the balance of the year.

M. O. SIMPSON, JR.
Chairman and President

COMBINED ENGINEERED PRODUCTS LIMITED

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 1968

	February 29 1968	February 28 1967
	$	$
SALES	**9,127,414**	9,120,031
PROFIT BEFORE INCOME TAXES	**382,780**	432,314
ESTIMATED INCOME TAXES	**191,390**	216,157
NET PROFIT FOR THE PERIOD	**191,390**	216,157

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 29, 1968

	February 29 1968	February 28 1967
SOURCE	$	$
Operations		
Profit for the period	**191,390**	216,157
Depreciation provided	**222,540**	225,043
Write off of long term receivable	—	46,991
	413,930	488,191
Proceeds from the sale of investment and repayment of advances	—	39,650
	413,930	527,841
USE		
Reduction in long term liabilities	**100,000**	—
Payment of special refundable income tax	**3,164**	5,385
Payment of dividends to preferred shareholders	**55,000**	55,000
Additions to fixed assets	**332,266**	90,876
	490,430	151,261
INCREASE (DECREASE) in working capital	**(76,500)**	376,580
WORKING CAPITAL at beginning of year	**3,005,929**	1,782,419
WORKING CAPITAL at end of period	**2,929,429**	2,158,999
CURRENT ASSETS	**6,340,429**	7,158,105
CURRENT LIABILITIES	**3,411,000**	4,999,106
	2,929,429	2,158,999

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COMBINED ENGINEERED PRODUCTS LIMITED

FORTY-EIGHT ST. CLAIR AVENUE WEST

TORONTO 7, ONTARIO, CANADA

June 30, 1966.

REPORT TO SHAREHOLDERS:

RE: Sale to Dover Corporation of Turnbull Elevator of Canada Limited and of Turnbull Elevator Incorporated (exclusive of the assets of the Atlanta, Georgia hydraulic elevator division), the closing of which was completed June 1, 1966.

(a) The effective net cash proceeds from the sale amounted to $8,247,000. This amount was applied to reduce the consolidated indebtedness of the Company.

(b) The losses sustained by the elevator companies for the six months ending February 28, 1966, plus the requirements under the terms of the sale agreement to provide for certain contingencies and the costs required to complete the elevator contracts outstanding at February 28, 1966, necessitated a charge to surplus of $3,916,392.

(c) Although the previous paragraph indicates a significant reduction in the shareholders' equity, it should be noted that independent appraisals made in June 1965 showed an excess of approximately $4,000,000 in the value of the fixed assets of the major companies now remaining over the book values appearing on the balance sheet at this time.

(d) Supplementary Letters Patent, under date of June 8, 1966, have been issued to the Company confirming the change of the Company's name to Combined Engineered Products Limited.

(e) Shortly, the Stock Exchange ticker abbreviation for the Company will be changed from TEL to CEP.

(f) Existing share certificates need not be submitted to the transfer agent for exchange as they will be honoured in their present form.

(g) The remaining Divisions of the Company continue to operate profitably and we hope to report to you, shortly after the close of the present fiscal year, on a favourable note concerning the 1966-67 outlook.

Respectfully submitted on Behalf of the Board.

M. O. SIMPSON,
Chairman and President